

## **The Pandora Papers and Indonesian Tax Amnesty, Déjà vu?**

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The publication of the Pandora Papers on the 3<sup>rd</sup> of October 2021 implicated a number of Indonesian politicians and business people. Little is known how many more are involved and this could be the tip of the iceberg. Despite the commitment of the Head of the Financial Transaction Reports and Analysis Center to scrutinise the report, the public has not seen any significant development or transparency related to the investigation since then. Four days after the release of the Pandora Papers, the new Indonesian tax law was legislated on the 7<sup>th</sup> of October 2021. This new law regulates second tax amnesty (TA) which comes to effect on the January 1, 2022. This amnesty would forgive tax delinquents, who declare their unreported overseas and domestic assets, and impose them lower tax rate. This programme lacks transparency, such as public hearing, prior to the legislation. Basically, the people implicated by the Pandora Papers are those who hide their assets overseas and this activity can be associated with tax avoidance. Hence, participating in the tax amnesty may whitewash their illicit funds as participants are facilitated to bring the unreported assets back to home jurisdiction and their information would be treated with confidentiality. Evidence from Bangladesh suggests that a tax amnesty can be used to foster the shadow economy as well as encourage the economics of corruption.

The initiation of the second Indonesian Tax Amnesty, following the release of the Pandora Papers, is not uncommon. Five years earlier, the issuance of Panama Papers on the 3<sup>rd</sup> of April 2016 was also followed by the first Indonesian tax amnesty which was enacted on the 28<sup>th</sup> of June 2016. The Panama Papers involved thousands of Indonesian businessmen and politicians. Yet, there has not been any significant investigation carried out to these people previous to the start of the tax amnesty. Whether the introduction of tax amnesties after the release of both the Panama and Pandora Papers is a mere coincidence or actually related, preliminary actions should be taken to investigate these people or at least the government should reschedule the initiation of the tax amnesty until deep investigation is completed. According to the Financial Action Task Force (FATF) Recommendations, countries should implement measures (e.g., tracing, investigations) to mitigate money laundering risk associated with politically exposed persons. Learning from the experience of the first tax amnesty, it is uncertain whether the Indonesian politicians exposed by the offshore leak would be truly investigated.

With regards to the Indonesian government's plan to introduce a second amnesty, there are factors that should be taken into consideration. First of all, an evaluation should be made on the first amnesty before commencing the second one. The World Bank data released in 2020 indicated that the country's tax-to-GDP ratio has not improved substantially after the tax amnesty provision. This outcome is contrary to what was propagated by the government during the introduction of the first tax amnesty. Following the persuasive programme, stricter measures should be undertaken to those who decline to enroll into the tax system. Without enforcement, repeated tax amnesties may signal the weakness of tax administration. Secondly, the government's credibility is at stake because the previous amnesty programme was proclaimed as the one and only chance for taxpayers to participate. According to the OECD's report in 2015, running a series of tax amnesty programmes, without much distinction, risks damaging the programme's credibility. As a consequence, tax compliance post-amnesty tends to reduce due to the expectation of similar programmes in the future. In this regards, taxpayers are likely to hold their asset and income disclosures until the introduction of a future tax amnesty.

To conclude, it is highly crucial to evaluate the previous tax amnesty before planning a second one. Otherwise, the second initiative serves to engender continuing controversies. Moreover, the initiation of the country's tax amnesty was typically preceded by an offshore leak. In this regards, the government's true motive for introducing a tax amnesty seems dubious.

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